1987 FINANCIAL STATEMENTS

The Municipality of Metropolitan Toronto

Compiled by:

Treasury Department
Municipality of Metropolitan Toronto
10th Floor, West Tower, City Hall
Toronto, Ontario M5H 2N1

Telephone: (416) 392-8427

Additional copies are available at the above address

The Municipality of Metropolitan Toronto was incorporated in 1953 as a regional government by an act of the Province of Ontario. It is located on the north shore of Lake Ontario and consists of six municipalities, namely, the City of Toronto, the City of North York, the City of Scarborough, the City of Etobicoke, the City of York, and the Borough of East York. The Municipality covers 632 square kilometres extending 40 kilometres along the north shore of Lake Ontario and 16 kilometres inland.

The principle underlying the distribution of responsibilities between the Municipality of Metropolitan Toronto and its constituent area municipalities recognizes the need to unify those functions which are common to the whole area, while at the same time permits local, personal administration of matters of local concern. Accordingly, amalgamated services assigned to the Metropolitan Corporation include public transit, police protection, welfare administration, ambulance services and elderly persons housing; services which are the exclusive responsibility of the area municipalities in the Metropolitan federation include fire protection, garbage collection, water supply distribution, minor arterial roads and the collection of taxes.

The Corporate logo, depicted above, symbolizes the six area municipalities, independent, yet interdependent, forming a union whose strength is greater than that of its individual parts.

CONTENTS

Six-Year Financial Review

Financial Statements

Municipality of Metropolitan Toronto

Metropolitan Waterworks System

The Financial Statements of the Municipality of Metropolitan Toronto reflect the activities of the Municipality **not consolidated** with its local boards, commissions and municipal enterprises. Consolidated financial statements for the Municipality will shortly be published as part of the Annual Report of the Commissioner of Finance.

The Municipality of
Metropolitan Toronto

Treasury Department
City Hall, West Tower, 10th Floor
Toronto, Ontario, Canada M5H 2N1
Telephone: (416) 392- Telex: 06-23472

Address all correspondence to
John L. Pickard, B.Com., F.C.A.
Commissioner of Finance and Treasurer

M.A. Brooks I.P.F.A.
Director of Financial Services and Deputy Treasurer

April 18, 1988

The Chairman and Members
of the Council
of the Municipality of Metropolitan Toronto

FINANCIAL STATEMENTS 1987

INTRODUCTORY

I am pleased to present the Financial Statements of the Municipality of Metropolitan Toronto for the year ended December 31, 1987. These statements reflect the operations of the Municipality which at this stage are not consolidated with its local boards and municipal enterprises. A comprehensive consolidated financial overview will be included as part of the subsequent Annual Financial Report for fiscal 1987. In the meantime I have commented in some detail on the 1987 financial results with a view to providing an overview of 1987 fiscal activity.

Also presented herein are the Financial Statements of the Metropolitan Waterworks System, a municipal enterprise of the Metropolitan Corporation.

CURRENT OPERATIONS

The current fund surplus recorded by the Metropolitan Corporation in 1987, in excess of $57 million, represented the 34th consecutive annual surplus and is attributable to a number of circumstances. Briefly stated, total operating expenditures amounted to approximately $23 million lower than budget while total operating revenues exceeded budget by $34 million.

Operating expenditures

In 1987, total gross operating expenditures amounted to $1,560,063,000 (1986 - $1,402,540,000) as compared with a total gross operating budget of $1,583,748,000.

dollars in thousands

	1987 Budget	1987 Actual	Budget Comparison	1986 Actual
General government	83,052	100,673	(17,621)(a)	71,342
Protection to persons and property	418,464	409,511	8,953 (b)	387,449
Transportation services	258,959	241,281	17,678 (c)	227,994
Environmental services	155,833	154,174	1,659	144,409
Health services	50,626	49,138	1,488	44,142
Social and family services	516,205	508,226	7,979 (d)	434,495
Recreation and cultural services	88,381	85,003	3,378 (e)	81,136
Planning and development	12,228	12,057	171	11,573
	1,583,748	1,560,063	23,685	1,402,540

(a) As authorized by By-Law No. 164-87 dated December 11th, 1987, an amount of $15,000,000 was transferred to a Reserve Fund for Capital Costs of Metro Hall. In addition interest on temporary financing costs were higher than anticipated, although this was more than offset by higher interest earnings.

(b) Underexpenditures in police payroll costs due to actual staffing levels being lower than budgeted.

(c) Higher than anticipated transit ridership; underexpenditure due to lower than budgeted winter maintenance program requirements and traffic engineering and maintenance activities.

(d) Later than anticipated provincial approval resulted in the expanded 1987 day care program not being implemented as early as planned.

(e) Lower than budgeted operating subsidy paid to Metro Zoo arising from lower zoo payroll costs and higher zoo concessions, admissions and memberships.

Operating revenues

In 1987, total operating revenues amounted to $1,565,150,000 (1986 - $1,417,357,000) as compared with total budgeted revenues of $1,531,122,000.

dollars in thousands

	1987 Budget	**1987 Actual**	Budget Comparison	1986 Actual
Taxation - (Levy on area municipalities, supplementary taxes)	718,967	**726,707**	7,740	674,474
Ontario grants	569,185	**576,765**	7,580	507,980
User charges	181,647	**192,857**	11,210	170,927
Other revenue	61,323	**68,821**	7,498	63,976
	1,531,122	**1,565,150**	34,028	1,417,357

Taxation

The general tax levy on Metropolitan Toronto's six constituent area municipalities increased 6.7 per cent. over 1986, while the rate of growth in the assessment upon which the Metropolitan levy is apportioned increased slightly from 1.3 per cent. in 1986 to 1.5 per cent. in 1987. The favourable budget variance is primarily due to the metropolitan share of supplementary taxes levied by area municipalities being higher than anticipated.

Ontario grants

The total of grants received from the Province of Ontario during 1987 at $576,765,000 represented 37.0 per cent. of gross expenditures, as compared with 36.2 per cent. in 1986. Due to a provincial change in the grant formula, the Municipality did not qualify for a Resource Equalization Grant in 1987 (1986 - $2,953,000). On the other hand, a Revenue Guarantee Grant in the sum of $403,000 was received arising from the guarantee by the Province that the total 1987 unconditional grant payments received by a municipality would be at least 2% greater than that received in 1986.

User charges

Higher revenue as a result of increased tonnage processed at landfill sites and transfer stations together with higher than projected revenue from the surcharge on the sale of water account principally for the positive budget variance in this category.

Other revenue

The favourable variance of $7,498,000 is due primarily to higher than anticipated interest earnings during the year.

CAPITAL OPERATIONS

Gross capital expenditure in 1987 amounted to $294,901,000, a decrease of 9% compared with 1987. Of this sum, $125,831,000, or 43% was spent on expansion and improvements to the transit system, while sewage and refuse disposal capital expenditure, at $43,456,000, accounted for 15%. Expenditures in regard to protection to persons and property totalled $42,148,000 and related primarily to the construction of a new police headquarters building.

During 1987, the Toronto Transit Commission commenced construction on a $51 million Harbourfront Light Rail Transit Line, the first new streetcar line to be built in Metropolitan Toronto in more than 60 years. Also during the year the subway network added its 60th station when doors opened to the North York Centre Station, the first subway station to be built on an existing line without interruption to ongoing service.

Total financing of capital expenditures during 1987 amounted to $330,087,000, comprised principally of provincial capital grants in the sum of $128,235,000 (39%), contributions from current funds of $74,479,000 (22%) and long term debt incurred of $91,048,000 (28%). In addition, other miscellaneous sources of capital financing such as proceeds from the sale of capital assets and sundry capital contributions and recoveries totalled $25,718,000 (8%) while excess sinking fund investment earnings on matured debenture debt amounted to $10,607,000 (3%).

LONG RANGE CAPITAL AND FINANCIAL PLANNING

Capital expenditure financed from current funds

Metropolitan Council's long range capital and financial planning policy for its general municipal purpose and municipal enterprise operations is designed to ensure a balanced financing mix between internally generated revenues and debenture financing for the Municipality's capital expenditures and other long term capital improvements. The capital financing policy adopted is designed to stabilize the contribution of the revenue fund towards capital expenditures at a level generally of 50 per cent. of the actual net capital financing requirements for each year. The current policy of Council is to allocate within the operating budget an amount equivalent to a levy of 6 mills to meet this expenditure. To the extent that this annual provision to finance capital expenditures out of current funds exceeds this limit, the excess is transferred

to a capital financing stabilization reserve; conversely, if such annual provision amounts to less than the 50 per cent. guideline, the shortfall is met by a draw upon the reserve.

As a result of 1987 capital operations and in accordance with this policy, an amount of $54,527,000 was utilized from current operations to finance capital expenditures while $7,966,000 was transferred from the reserve. The balance of this reserve was $6,122,000 as at December 31, 1987.

Guidelines for future capital expenditure

In 1985, Metropolitan Council approved a ten-year plan of capital expenditure and associated debt management guidelines, following a comprehensive financial planning study designed to identify measures to further control the Corporation's capital expenditures and debt servicing charges within limits considered necessary to achieve multi-year financial targets established by Council. The study projected over a ten-year period the levels of net capital expenditures in various functional areas, with a view to determining priorities as between competing service demands for capital resources and relating such multi-year expenditure levels and priorities to debt management policy guidelines.

Recommendations included:

a) specific net capital expenditure targets for the next five years and further five-year targets to be utilized as a planning guide;
b) specific criteria for the management of debt;
c) a process to review and update the plan on an annual basis.

The expenditure targets approved by Metropolitan Council are based on three key guidelines:

a) percentage of fixed debt charges in the levy should average no more than 15 per cent.;
b) percentage of net capital expenditure to be raised in the levy should be no less than 50 per cent.; and
c) the mill rate should increase each year by no more than the inflation rate within the economy as measured by the Consumer Price Index.

These guidelines form the basis of the Budget Sub-Committee's review of future Five-Year Capital Works Programs; any revisions to long term capital expenditure targets arising from such reviews are the subject of subsequent reports to Metropolitan Council.

DEBT STRUCTURE

The table below details the net long term liabilities of the Municipality of Metropolitan Toronto over the last six years in respect of its own general municipal activities and municipal enterprises (exclusive of those of the Area Municipalities). Net long term liabilities in respect of general municipal purposes are also expressed on a per capita basis and as a percentage of taxable assessment.

dollars in thousands, except per capita figures

	General Municipal Activities	Per Capita	Percentage of Taxable Assessment	Municipal Enterprises
1982	419,148	197	5.41	123,293
1983	415,318	196	5.28	109,636
1984	388,949	182	4.85	96,298
1985	358,207	167	4.40	83,948
1986	374,244	176	4.55	71,955
1987	**420,907**	**198**	**5.02**	**60,668**

Metro Council's capital financing policy involving a "pay-as-you-go" annual provision of about 50 per cent. of capital borrowing requirements, as previously described, has been over the last several years one of the most significant contributing factors in the stabilization of the Corporation's long term debt.

DEBT SERVICING

Also during the past six years, debt service charges for the general municipal purposes of the Metropolitan Corporation, as a percentage of the annual general tax levy on Metropolitan taxpayers, have declined from 17.4 per cent. to 13.6 per cent. and as a percentage of total operating expenditure from 8.5 per cent. to 6.3 per cent. as shown by the following tables:

dollars in thousands

	Debt Charges	General Tax Levy	Percentage
1982	85,853	493,162	17.4
1983	87,744	547,650	16.0
1984	91,797	606,231	15.1
1985	93,936	635,820	14.8
1986	93,810	674,474	13.9
1987	**98,695**	**726,707**	**13.6**

	Debt Charges	Total Operating Expenditure	Percentage
1982	85,853	1,004,221	8.5
1983	87,744	1,112,253	7.9
1984	91,797	1,219,647	7.5
1985	93,936	1,310,864	7.2
1986	93,810	1,402,540	6.7
1987	**98,695**	**1,560,063**	**6.3**

RESERVES AND RESERVE FUNDS

The table below lists the year end balances of Reserves and Reserve Funds of the Municipality over the last six years in relation to total operating expenditures.

dollars in thousands

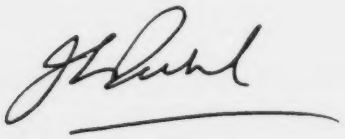
	Reserves and Reserve Funds	Total Operating Expenditures	Percentage
1982	80,654	1,004,221	8.0
1983	46,124	1,112,253	4.1
1984	72,336	1,219,647	5.9
1985	72,020	1,310,864	5.5
1986	104,876	1,402,540	7.5
1987	**146,902**	**1,560,063**	**9.4**

In 1987, Metropolitan Council further augmented its reserves and reserve funds through provisions for accelerated debenture debt redemption, public liability insurance, additional refuse disposal capacity and, as indicated earlier on page 2, the capital costs of establishing a new headquarters for the Metropolitan Corporation.

CONCLUSION

The Metropolitan Corporation further consolidated its financial position in 1987 with service delivery operations completed well within budget and the reserve and reserve fund balances of the Municipality significantly enhanced. I have every confidence that the members of Metropolitan Council and staff will continue the exercise of prudent and sound financial management policy in addressing the challenges and opportunities of the future.

Respectfully submitted,



John L. Pickard, B. Com., FCA
Commissioner of Finance and Treasurer

SIX-YEAR FINANCIAL REVIEW

MUNICIPALITY OF METROPOLITAN TORONTO

SIX-YEAR FINANCIAL REVIEW

not subject to audit

		1987	1986
Statistics	Population at the end of the year	2,125,520	2,130,938
	Area in acres at the end of the year	154,584	154,584
	Employees - continuous full time	14,826	14,694
	- part time	2,701	2,259
Assessment	Taxable assessment upon which the year's rates of taxation were set		
	Residential and farm	$4,026,592	$3,935,859
	Commercial and industrial	4,350,649	4,315,798
		$8,377,241	$8,251,657
	Per capita	$ 3,941	$ 3,872
	Commercial and industrial, and business as a percentage of taxable assessment	51.9%	52.30%
Current Operations	Revenue for general municipal services		
	Taxation - (Levy on area municipalities, supplementary taxes)	$ 726,707	$ 674,474
	Ontario grants	576,765	507,980
	Other grants	1,883	1,500
	User charges	192,857	170,927
	Other revenue	66,938	62,476
		$1,565,150	$1,417,357
	Expenditure - general municipal	$1,560,063	$1,402,540
	Transfers to the school boards	$1,299,401	$1,297,950
	Accumulated net revenue at end of year	$ 57,713	$ 52,626

dollars in thousands except per capita figures

1985	1984	1983	1982
2,145,900	2,131,942	2,124,085	2,122,369
154,584	154,584	154,584	154,584
14,266	14,325	14,130	13,360
1,688	1,358	1,195	1,630
$3,930,227	$3,892,227	$3,816,298	$3,719,100
4,211,612	4,133,651	4,045,484	4,021,747
$8,141,839	$8,025,878	$7,861,782	$7,740,847
$ 3,794	$ 3,765	$ 3,701	$ 3,647
51.73%	51.50%	51.46%	51.95%
$ 635,820	$ 606,231	$ 547,650	$ 493,162
459,057	425,253	397,939	351,688
949	2,442	2,065	56
147,627	124,979	112,997	90,622
69,739	56,894	57,608	53,220
$1,313,192	$1,215,799	$1,118,259	$ 988,748
$1,310,864	$1,219,647	$1,112,253	$1,004,221
$1,184,910	$1,079,304	$1,001,205	$ 907,773
$ 37,809	$ 35,481	$ 39,329	$ 33,323

MUNICIPALITY OF METROPOLITAN TORONTO

SIX-YEAR FINANCIAL REVIEW (continued)

not subject to audit

		1987	1986
Net Long Term Liabilities	General municipal activities	$ 420,907	$ 374,244
	Per capita	$ 198	$ 176
	Percentage of taxable assessment	5.02%	4.55%
	Municipal enterprises	$ 60,668	$ 71,955
	Charges for net long term liabilities		
	General municipal activities	$ 98,695	$ 93,810
	Per capita	$ 46	$ 44
Capital Operations	Capital financing during the year		
	Contributions from own funds	$ 85,197	$ 83,472
	Long term liabilities incurred	91,048	64,243
	Ontario grants	128,235	144,138
	Other	25,607	20,063
		$ 330,087	$ 311,916
	Capital expenditure during the year	$ 294,901	$ 323,285
Reserves and Reserve Funds	Balance at end of year	$ 146,902	$ 104,876

dollars in thousands except per capita figures

1985	1984	1983	1982
$ 358,207	$ 388,949	$ 415,318	$ 419,148
$ 167	$ 182	$ 196	$ 197
4.40%	4.85%	5.28%	5.41%
$ 83,948	$ 96,298	$ 109,636	$ 123,293
$ 108,868	$ 91,797	$ 87,744	$ 85,853
$ 51	$ 43	$ 41	$ 40
$ 70,574	$ 55,523	$ 81,598	$ 40,839
11,645	18,901	38,160	9,131
141,394	122,869	115,126	82,747
20,649	22,549	20,879	14,801
$ 244,262	$ 219,842	$ 255,763	$ 147,518
$ 268,466	$ 228,326	$ 274,771	$ 153,681
$ 72,020	$ 72,336	$ 46,124	$ 80,654

METROPOLITAN TORONTO

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 19, 1988

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the balance sheet of the Municipality of Metropolitan Toronto as at December 31, 1987 and the statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Municipality as at December 31, 1987 and the results of its operations for the year then ended in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

MUNICIPALITY OF METROPOLITAN TORONTO

BALANCE SHEET
DECEMBER 31, 1987

ASSETS	1987	1986
Unrestricted		
Cash	**$ 2,963**	$ 1,713
Investments (note 3)	**290,821**	262,018
User charges receivable	**28,215**	21,943
Accounts receivable (note 4)	**175,898**	173,630
Inventory	**3,939**	3,943
Prepaid expenses	**13,320**	12,401
Long term receivables	**3,172**	2,578
	518,328	478,226
Restricted		
Cash	**690**	156
Investments (note 3)	**78,082**	25,159
Accounts receivable	**8,984**	29,286
Other current assets	**421**	133
	88,177	54,734
Capital outlay financed by long term liabilities and to be recovered in future years (note 7)	**420,907**	374,244
	$1,027,412	$907,204

see accompanying notes

dollars in thousands

LIABILITIES AND FUND BALANCES	1987	1986
Current liabilities		
Temporary loans	$ 11,332	$ 9,653
Accounts payable and accrued liabilities	369,537	366,276
Other current liabilities (note 4)	14,633	13,582
	395,502	389,511
Long term payables	-	14,745
Net long term liabilities (note 7)	420,907	374,244
Fund balances at end of year		
To be used to offset taxation in the following year (note 9)	57,713	52,626
Unexpended capital financing (Capital operations not yet permanently financed)(note 9)	6,388	(28,798)
Reserves (note 10)	60,553	51,025
Reserve funds (note 10)	86,349	53,851
	$1,027,412	$907,204

MUNICIPALITY OF METROPOLITAN TORONTO

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1987

SOURCES OF FINANCING	1987	1986
Taxation and user charges		
Requisition on local municipalities	$2,026,108	$1,972,424
Less school board requisition	(1,299,401)	(1,297,950)
User charges	196,545	171,358
Grants		
Government of Canada	2,258	1,500
Province of Ontario	705,000	652,118
Other		
Investment income	26,862	22,579
Sale of land	8,236	4,370
Fines	30,307	29,731
Other	39,044	53,898
Proceeds from the issue of long term liabilities	89,714	63,359
Municipal fund balances at beginning of year (note 9)		
To be used to offset taxation in the following year	52,626	37,809
(Capital operations not yet permanently financed)	(28,798)	(17,429)
Total financing available during the year	$1,848,501	$1,693,767

see accompanying notes

dollars in thousands

APPLIED TO	1987	1986
Current operations (note 8)		
General government	$ 66,424	$ 63,097
Protection to persons and property	387,264	365,632
Transportation services	220,186	206,323
Environmental services	134,138	127,448
Health services	44,753	41,183
Social and family services	504,449	429,858
Recreation and cultural services	71,124	66,703
Planning and development	11,922	11,512
	1,440,260	1,311,756
Capital operations		
General government	1,102	618
Protection to persons and property	41,847	40,986
Transportation services	169,737	204,710
Environmental services	43,163	40,375
Health services	5,612	3,401
Social and family services	15,127	17,198
Recreation and cultural services	25,487	17,964
Planning and development	39	75
	302,114	325,327
Net appropriations to reserves and reserve funds	42,026	32,856
Municipal fund balances at end of year (note 9)		
To be used to offset taxation in the following year	57,713	52,626
Unexpended capital financing (Capital operations not yet permanently financed)	6,388	(28,798)
Total applications during the year	$1,848,501	$1,693,767

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1987

1. ACCOUNTING POLICIES

The financial statements of the Corporation of the Municipality of Metropolitan Toronto are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments.

(a) Basis of Consolidation

(i) Consolidated entities

These financial statements reflect the assets, liabilities, sources of financing and expenditures of the revenue fund, capital fund, reserve funds and reserves of the Municipality, including the Metropolitan Board of Commissioners of Police and the Metropolitan Licensing Commission.

All interfund assets and liabilities and sources of financing and expenditures have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

(ii) Non-consolidated entities

The following entities are not consolidated:

Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Toronto Transit Commission
Gray Coach Lines, Limited
Board of Governors of Exhibition Place
Board of Management of the O'Keefe Centre
Board of Management of the Metropolitan Toronto Zoo
Board of Management of the Guild
Metropolitan Toronto Housing Company, Limited
Metropolitan Toronto Singles Housing Corporation
Metropolitan Toronto School Board

(iii) Accounting for school board transactions

The Statement of Operations reflects the Metropolitan Toronto Education Levy requisitioned upon the Metropolitan Toronto area municipalities and the subsequent transfer thereof to the Metropolitan Toronto School Board.

(iv) Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet.

(b) Basis of Accounting

(i) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Charges for long term liabilities

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(iii) Fixed assets

The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Operations in the year of acquisition.

(iv) Capital outlay financed by long term liabilities and to be recovered in future years

"Capital outlay financed by long term liabilities and to be recovered in future years", as reported on the Balance Sheet, represents the sum of the outstanding principal portion of unmatured long term liabilities for municipal expenditures and the long term obligations arising out of capital leases entered into by the municipality.

(v) Liabilities payable in foreign currencies

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred.

(vi) Inventories

Inventories are valued at average cost.

2. TRUST FUNDS

Trust funds administered by the Municipality amounting to approximately $26,000,000 (1986 - $22,00,000) have not been included in the Balance Sheet nor have their operations been included in the Statement of Operations.

3. INVESTMENTS

The unrestricted investments of $290,821,000 (1986 - $262,018,000) and restricted investments of $78,082,000 (1986 - $25,159,000) are reported on the Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

4. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $11,822,000 in 1987 (1986 - $10,608,000) are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other Current Liabilities".

5. PENSION AGREEMENTS

(a) Ontario Municipal Employees Retirement Fund

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 11,593 members (78%) of its staff. This plan is a defined benefit plan and specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to OMERS for current service in 1987 was $25,363,000 (1986 - $23,075,000) and is included as an expenditure on the Statement of Operations.

Under the past service provisions of the OMERS agreement, the Municipality is obligated at December 31, 1987, for an amount of approximately $4,187,000 (1986 - $1,592,000) as established for the plan. No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. In this regard $265,000 was funded in 1987 (1986 - $265,000) and is reported on the Statement of Operations.

The latest actuarial valuation conducted at January 1, 1987, indicates that OMERS is in sound financial condition and that current member and employer contribution rates appear sufficient to fund future benefits.

(b) Other Pension Plans

The Municipality of Metropolitan Toronto is a member in a number of other pension plans. These plans provide pensions based on length of service and final average earnings.

The amount contributed to these plans for current service in 1987 was $6,516,000 (1986 - $6,818,000) and is included as an expenditure on the Statement of Operations.

Actuarial estimates indicate that, based on projections of employees' compensation levels to time of retirement, the present value of the unfunded obligations for pension benefits relating to past service was $37,789,000 as at December 31, 1987 (1986 - $67,368,000). This balance is being funded and charged to operations as follows:

	dollars in thousands
1988 to 1991	$24,750
1992 to 1995	13,039
	$37,789

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. Expenditure for past service of $9,464,000 was made in 1987 (1986 - $10,405,000) and is reported on the Statement of Operations.

6. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Municipality. In order to provide for this past service liability the Municipality has established a Corporate Sick Pay Reserve Fund. The following local boards and municipal enterprises also participate in this reserve fund:

Metropolitan Waterworks System
Metropolitan Toronto Library Board
Board of Governors of Exhibition Place
Board of Management of the Metropolitan Toronto Zoo
Metropolitan Toronto Housing Company, Limited

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $91,354,000 (1986 - $85,159,000) at the end of the year.

Contributions to the Corporate Sick Pay Reserve Fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time, and, over the next nine years, will be as follows:

	dollars in thousands		
	1988 to 1990	1991 to 1993	1994 to 1996
Municipality	$7,276	$7,276	$7,276
Other participants	505	505	505

During 1987, the contributions to the reserve fund by the Municipality and other participants amounted to $2,131,000 and $166,000 respectively. At December 31, 1987, the balance of the Corporate Sick Pay Reserve Fund was $13,867,000 (1986 - $15,557,000).

7. NET LONG TERM LIABILITIES

(a) **The net long term liabilities reported on the Balance Sheet are made up of the following:**

	dollars in thousands	
	1987	1986
Total long term liabilities incurred by the Municipality, including those incurred on behalf of school boards, other municipalities and municipal enterprises and outstanding at the end of the year amount to	**$1,310,032**	$1,312,672
In addition, the Municipality has assumed responsibility for the payment of principal and interest charges on certain long term liabilities issued by other municipalities. At the end of the year the outstanding principal amount of this liability is	**479**	545
Capital leases	**5,853**	4,910
Long term interest free loan payable to Province of Ontario	**5,839**	6,601
Of the long term liabilities shown above, the responsibility for payment of principal and interest charges has been assumed by school boards, other municipalities, municipal enterprises and by the Province of Ontario. At the end of the year, the outstanding principal amount of this liability is	**(594,348)**	(648,937)
The total value of sinking funds and the balance in the Ministry of the Environment Debt Retirement Fund which have been accumulated to the end of the year to retire the outstanding long term liabilities included above amount to	**(306,948)**	(301,547)
Net long term liabilities	**$ 420,907**	$ 374,244

(b) **Net long term liabilities - future redemption**

Of the net long term liabilities reported in (a) of this note, $159,884,000 in principal payments are payable from 1988 to 1992, $119,467,000 from 1993 to 1997, and $10,478,000 thereafter.

The difference between the total of principal redemption indicated above ($289,829,000) and the total of net long term liabilities reported in note 7 (a) ($420,907,000) is related to the following two factors:

(i) Long term liabilities payable in U.S. funds reported in note (a) have been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred, whereas the projections of principal redemption above are based on $1 US = $1 Canadian.

(ii) The projections of principal redemption indicated above are based on the premise that actuarial sinking fund deposits (in respect of sinking fund debentures) will earn interest, capitalized yearly thereon, at a rate not exceeding 8% and which will be sufficient to repay such debentures in full at maturity.

(c) **Translation of net long term liabilities payable in foreign currencies**

Included in "Net long term liabilities" on the Balance Sheet is an amount of $100,216,000 (1986 - $114,527,000) payable in U.S. funds and translated into Canadian funds at the rates of exchange prevailing at the time the liability was incurred. If translated at the exchange rate prevailing at December 31, 1987, the Canadian dollar equivalent of this amount of debt would be increased by $22,197,000 (1986 -$34,449,000).

(d) **Ontario Municipal Board**

Approval of the Ontario Municipal Board has been obtained for the debenture debt reported in (a) of this note issued in the name of the Municipality.

(e) **Long term liabilities incurred on behalf of area municipalities, municipal enterprises, school boards and the Province of Ontario.**

The Municipality is contingently liable for long term liabilities for which the responsibility for the payment of principal and interest has been assumed by its area municipalities, municipal enterprises, school boards and the Province of Ontario. The total amount outstanding as at December 31, 1987 is $594,348,000 (1986 -$648,937,000) and is not recorded on the Balance Sheet.

8. CHARGES FOR NET LONG TERM LIABILITIES

Total charges for the year for net long term liabilities which are reported on the Statement of Operations are as follows:

	dollars in thousands	
	1987	1986
Principal payments including contributions to sinking funds and the Ministry of the Environment Debt Retirement Fund	**$31,450**	$ 29,015
Interest	**67,245**	64,795
	$98,695	$ 93,810

The charges for long term liabilities assumed by the area municipalities, municipal enterprises, school boards and the Province of Ontario are not reflected in these statements.

9. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR

(a) The balances on the Statement of Operations of municipal equity of $64,101,000 (1986 - $23,828,000) at the end of the year are comprised of the following:

	dollars in thousands	
	1987	1986
For general reduction of taxation	**$57,713**	$ 52,626
Acquisition of fixed assets to be recovered through taxation	**(27,504)**	(41,398)
Acquisition of fixed assets to be financed from the proceeds of long term liabilities	**(27,504)**	(41,398)
Funds available for the acquisition of fixed assets	**61,396**	53,998
	$ 64,101	$ 23,828

Approval of the Ontario Municipal Board has been obtained for the pending issues of long term liabilities.

(b) The balance available for the general reduction of taxation for the fiscal year ending December 31, 1987 has been reduced by an amount of $15,000,000 transferred to the Reserve Fund for Capital Costs of Metro Hall as authorized by By-Law No.164-87 dated December 11th, 1987. Had this reduction not been made the municipal fund balance for the general reduction of taxation would have been $72,713,000.

10. RESERVES AND RESERVE FUNDS

The total balances of reserves and reserve funds of $60,553,000 (1986 - $51,025,000) and $86,349,000 (1986 - $53,851,000) respectively are made up of the following:

	dollars in thousands	
	1987	1986
Reserves set aside for specific purposes by Council		
Exchange stabilization	**$ 4,360**	$ 4,360
Replacement of equipment	**5,269**	3,838
Sick pay benefits	**3,481**	2,869
Capital financing stabilization	**6,123**	14,088
Parks and recreation program facilities	**1,000**	1,089
Contingencies	**31,869**	24,781
Refuse disposal purposes	**3,451**	-
Debenture repayment	**5,000**	-
	60,553	51,025
Reserve funds set aside for specific purposes by Council		
Insurance	**12,526**	4,431
Sick pay benefits	**13,867**	15,557
Parks and recreation program facilities	**3,060**	5,679
Pollution control	**33,457**	24,882
Property settlement	**7,925**	3,118
Metro Hall	**15,048**	-
Other	**326**	51
	86,209	53,718
Reserve funds set aside for specific purposes by legislation, regulation or agreement		
Lakeview Sewage Treatment Plant Contingency	**140**	133
	86,349	53,851
	$146,902	$104,876

11. CAPITAL FINANCING STABILIZATION RESERVE

A Capital Financing Stabilization Reserve has been established to stabilize revenue fund contributions for capital expenditure. The current policy of Council for financing capital expenditures net of external financing and surplus sinking fund monies is to provide up to 50 per cent of the required financing by a current levy, the balance being provided from debenture proceeds. If the annual current levy produces funds greater or lesser than the foregoing guideline, such difference is transferred to or from the Reserve.

Resulting from 1987 capital operations and in accord with this policy, an amount of $54,527,000 was utilized from current operations to finance capital expenditures while $7,966,000 was transferred from the reserve. The balance of this Reserve was $6,123,000 as at December 31, 1987. (1986 - $14,088,000).

12. PUBLIC LIABILITY INSURANCE

The Municipality of Metropolitan Toronto is a participant in the Metropolitan Municipalities' Group Liability program for which Trust Funds have been established and are administered by the Municipality of Metropolitan Toronto. In addition, the Municipality has established an Insurance Reserve Fund to meet losses in certain defined categories.

Settlement of claims is financed as follows:

First $10,000	Insurance reserve fund
$10,000 - $5,000,000	Trust funds
$5,000,000 - $10,000,000	Outside insurers
Excess of $10,000,000	Insurance reserve fund

At the end of the year, the estimated liability for all claims reported and not settled to be financed by the Insurance reserve fund was $2,544,000. The balance of the Fund in the sum of $12,526,000 is considered adequate for this purpose and is, in any event, subject to ongoing review.

13. CONTRACTUAL OBLIGATION

Metropolitan Council, in 1985, approved a contribution towards the capital cost of construction of a domed stadium in a total amount not to exceed the lesser of $30 million, or 20 per cent of the total cost of the project. This contribution was approved as a current expendiutre to be financed over a period of five years commencing in 1985 through the establishment and maintenance of a reserve fund with provision being made annually in the current estimates. An amount of $14,900,000 has been contributed to December 31, 1987. Further contributions will be as follows:

1988	$7,200,000
1989	$7,900,000

In addition, Council adopted as policy that it would not be responsible for any operating costs or financial losses of the stadium, nor provide any grants to related organizations.

14. BUDGET FIGURES

Budgets established for capital funds, reserves and reserve funds are compiled on a project-oriented basis, the activity in regard to which may occur over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have therefore not been reflected on the Statement of Operations.

15. COMPARATIVE FIGURES

Certain of the 1986 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

ANALYSIS OF CURRENT OPERATIONS

ANALYSIS OF CAPITAL OPERATIONS

ANALYSIS OF RESERVES AND RESERVE FUNDS

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CURRENT OPERATIONS
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987 Budget	1987 Actual	1986 Actual
Surplus at beginning of year	$ 52,626	$ 52,626	$ 37,809
Revenue			
Taxation and user charges			
Requisition on local municipalities	2,014,019	2,026,108	1,972,424
Less school board requisition	(1,295,052)	(1,299,401)	(1,297,950)
User charges	181,647	192,857	170,927
Grants			
Government of Canada	1,839	1,883	1,500
Province of Ontario	569,185	576,765	507,980
Other			
Investment income	14,700	21,298	20,058
Fines	31,100	30,307	29,731
Other	13,684	15,333	12,687
	1,531,122	1,565,150	1,417,357
Expenditure			
General government	83,052	100,673	71,342
Protection to persons and property	418,464	409,511	387,449
Transportation services	258,959	241,281	227,994
Environmental services	155,833	154,174	144,409
Health services	50,626	49,138	44,142
Social and family services	516,205	508,226	434,495
Recreation and cultural services	88,381	85,003	81,136
Planning and development	12,228	12,057	11,573
	1,583,748	1,560,063	1,402,540
Surplus at end of year	$ -	$ 57,713	$ 52,626

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CAPITAL OPERATIONS
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987	1986
(Capital operations not yet permanently financed) at beginning of year	**$(28,798)**	$(17,429)
Financing		
Contributions from current operations	**74,479**	71,887
Contributions from reserve funds and reserves	**10,718**	11,585
Long term liabilities incurred	**91,048**	64,243
Ontario grants	**128,235**	144,138
Other	**25,607**	20,063
	330,087	311,916
Expenditure		
General government	**1,095**	637
Protection to persons and property	**42,148**	41,184
Transportation services	**172,906**	206,320
Environmental services	**43,456**	40,684
Health services	**5,624**	3,401
Social and family services	**15,141**	17,198
Recreation and cultural services	**14,492**	13,786
Planning and development	**39**	75
	294,901	323,285
Unexpended Capital Financing (Capital operations not yet permanently financed) at end of year	**$ 6,388**	$(28,798)

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987	1986
Balance at beginning of year	**$104,876**	$72,020
Revenue		
Contributions from current operations	53,678	27,783
Contributions from capital operations	4,205	3,118
Contributions from others	10,697	25,975
Interest earned	5,564	2,521
	74,144	59,397
Expenditure		
Transfers to current operations	278	-
Transfers to capital operations	10,718	11,585
Other charges	21,122	14,956
	32,118	26,541
Balance at end of year	**$146,902**	$104,876

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS (continued)
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987	1986
Analyzed as follows:		
Reserves		
Exchange stabilization	$ 4,360	$ 4,360
Replacement of equipment	5,269	3,838
Sick pay benefits	3,481	2,869
Capital financing stabilization	6,123	14,088
Parks and recreation program facilities	1,000	1,089
Contingencies	31,869	24,781
Refuse disposal purposes	3,451	-
Debenture repayment	5,000	-
	60,553	51,025
Reserve Funds		
Insurance	12,526	4,431
Sick pay benefits	13,867	15,557
Parks and recreation program facilities	3,060	5,679
Pollution control	33,457	24,882
Property settlement	7,925	3,118
Metro Hall	15,048	-
Contingencies	140	133
Other	326	51
	86,349	53,851
Balance at end of year	**$146,902**	$104,876

WATERWORKS SYSTEM

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

March 14, 1988

AUDITOR'S REPORT

The Chairman and Members of
The Metropolitan Council of
The Municipality of Metropolitan Toronto

I have examined the balance sheet of the Metropolitan Waterworks System as at December 31, 1987 and the statements of revenue, expenditure and accumulated net revenue, reserves and reserve fund continuity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Metropolitan Waterworks System as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN WATERWORKS SYSTEM

BALANCE SHEET
DECEMBER 31, 1987

dollars in thousands

ASSETS	1987	1986
Current assets		
Funds on deposit with the Municipality of Metropolitan Toronto	$ 33,247	$ 48,973
Accounts receivable (note 3)	14,830	17,166
Inventories	508	403
Other	661	391
	49,246	66,933
Investment - easement reserve fund (note 4)	95	87
Capital outlay financed by long term liabilities and to be recovered in future years	47,393	56,569
	$ 96,734	$123,589
LIABILITIES AND FUND BALANCES		
Current liabilities		
Due to Municipality of Metropolitan Toronto (note 7)	$ 6,228	$ 24,882
Accounts payable and accrued liabilities	6,155	7,017
Other (note 3)	3,300	4,727
	15,683	36,626
Net long term liabilities (note 8)	47,393	56,569
Fund balances at end of year		
Unexpended capital financing	14,293	14,037
Reserves and reserve fund (note 9)	19,365	16,357
	$ 96,734	$123,589

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED NET REVENUE
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987 Budget	1987 Actual	1986 Actual
Revenue			
Sale of water	$70,871	$74,304	$69,791
Investment income	800	2,314	4,286
Sale of land	3,596	143	2,055
Other	398	785	400
	75,665	77,546	76,532
Expenditure			
Water supply	12,024	13,353	12,850
Power and pumping	15,847	16,807	15,208
Water transmission and distribution	4,200	4,076	3,824
Administration	15,842	15,878	15,354
	47,913	50,114	47,236
Principal payments and interest charges on long term debt	18,595	17,822	20,171
Capital expenditures from current revenue	760	382	737
	67,268	68,318	68,144
Net revenue for the year	8,397	9,228	8,388
Transfer to reserves	(3,000)	(3,000)	(3,225)
Accumulated net revenue, beginning of year	-	-	19,719
Transfer to Municipality of Metropolitan Toronto (note 7)	(5,397)	(6,228)	(24,882)
Accumulated net revenue, end of year	$ -	$ -	$ -

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987	1986
Cash generated internally		
Revenue	$ 77,546	$ 76,532
Expenditure before capital financing costs	(50,114)	(47,236)
	27,432	29,296
Increase (decrease) resulting from changes in:		
Accounts receivables	2,336	1,675
Inventories	(105)	(236)
Other Current Assets	(270)	(14)
Due to Municipality of Metropolitan Toronto	(18,654)	24,882
Accounts payable and accrued liabilities	(862)	499
Other current liabilities	(1,427)	(959)
	8,450	55,143
Financing activities		
Contribution from sinking funds	4,727	5,686
Ontario grants	846	597
	5,573	6,283
Investment activities		
Capital expenditures	(5,699)	(8,122)
Principal payments and interest charges on long term debt	(17,822)	(20,171)
Transfer to Municipality of Metropolitan Toronto	(6,228)	(24,882)
	(29,749)	(53,175)
(Decrease) Increase in cash	(15,726)	8,251
Cash, beginning of year	48,973	40,722
Cash, end of year	$ 33,247	$ 48,973

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF RESERVES AND RESERVE FUND CONTINUITY
YEAR ENDED DECEMBER 31, 1987

dollars in thousands

	1987	1986
Balance at beginning of year	**$16,357**	$13,123
Revenue		
Contributions from current operations	**3,000**	3,335
Interest earned	**8**	9
	3,008	3,344
Expenditure		
Transfers to current operations	-	110
Balance at end of year	**$19,365**	$16,357

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1987

1. FINANCIAL ADMINISTRATION

The Municipality of Metropolitan Toronto Act requires the Waterworks System to be self-sustaining. The Act, as amended, also permits the use of waterworks system surplus funds for the financing of water pollution control works.

The revenues, expenditures, assets and liabilities of the System are accounted for separately from the operations of the Municipality. For administrative convenience, staff of the System are employed by the Municipality, but all employee costs are charged directly to the System. The Municipality also provides working capital, temporary funding for capital works and issues debentures on behalf of the System if or when required. Debt servicing requirements of these debentures are repaid by the System to the Municipality and charged against operating revenues of the System.

2. ACCOUNTING POLICIES

(a) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Charges for long term liabilities

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(c) Fixed assets

The historical cost and accumulated depreciation of fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Revenue, Expenditure and Accumulated Net Revenue in the year of acquisition.

(d) **Capital outlay financed by long term liabilities and to be recovered in future years**

Capital outlay financed by long term liabilities and to be recovered in future years, as reported on the Balance Sheet, represents the outstanding principal portion of unmatured long term liabilities for capital expenditures.

(e) **Liabilities payable in foreign currencies**

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred.

(f) **Inventories**

Inventories are valued on the first-in, first-out basis.

3. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $3,300,000 in 1987 (1986 - $4,727,000) are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other Current Liabilities".

4. INVESTMENTS

Investments of $95,000 (1986 - $87,000) are recorded on the Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

5. PENSION AGREEMENT

(a) **Ontario Municipal Employees Retirement Fund**

The Metropolitan Waterworks System makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 274 members (65%) of its staff. This plan is a defined benefit plan and specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to OMERS for current service in 1987 was $508,000 (1986 - $415,000) and is included as an expenditure on the Statement of Revenue, Expenditure and Accumulated Net Revenue.

The latest actuarial valuation conducted at January 1, 1987, indicates that OMERS is in sound financial condition and that current member and employer contribution rates appear sufficient to fund future benefits.

(b) **Metropolitan Toronto Pension Fund**

The Metropolitan Waterworks System also participates in the Metropolitan Toronto Pension Fund that provides pensions based on length of service and final average earnings.

The amount contributed to this plan for current service in 1987 was $191,000 (1986 - $218,000) and is included as an expenditure on the Statement of Revenue, Expenditure and Accumulated Net Revenue.

Actuarial estimates indicate that, based on projections of employees' compensation levels to time of retirement, the present value of the unfunded obligations for pension benefits relating to past service was $775,000 as at December 31, 1987 (1986 - $1,224,000). This balance is being funded by equal annual instalments of $155,000 over the period 1988 to 1992.

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. Expenditure for past service of $204,000 was made in 1987 (1986 - $294,000) and is reported on the Statement of Revenue, Expenditure and Accumulated Net Revenue.

6. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Metropolitan Waterworks System.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $1,986,000 (1986 - $1,977,000) at the end of the year.

In order to provide for this past service liability the Metropolitan Waterworks System participates in a Corporate Sick Pay Reserve Fund established by the Municipality of Metropolitan Toronto for this purpose. Contributions to this reserve fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time and will amount to $53,000 annually over the next nine years.

During 1987, the contributions to the reserve fund by the Metropolitan Waterworks System amounted to $48,000. At December 31, 1987, the balance of the Corporate Sick Pay Reserve Fund was $13,867,000 (1986 - $15,557,000).

7. TRANSFER OF ACCUMULATED NET REVENUE

Metropolitan Council approved the transfer of the balance of accumulated net revenue at the credit of the System to a Reserve Fund for Water Pollution Control Measures, under the jurisdiction of the Municipality of Metropolitan Toronto, to be applied to expedite and finance water pollution projects identified in annual budget reviews. The level of this Reserve Fund and future transfers of water supply surplus funds will be subject to ongoing review by Metropolitan

Council. At the end of the year, accumulated net revenue amounting to $6,228,000 (1986 - $24,882,000) was transferred to the Reserve Fund.

8. NET LONG TERM LIABILITIES

(a) The net long term liabilities reported on the Balance Sheet are made up of the following:

	dollars in thousands	
	1987	1986
Principal amount of long term liabilities outstanding	**$125,548**	$142,649
Less value of sinking funds accumulated to retire outstanding long term liabilities	**78,155**	86,080
Net long term liabilities	**$ 47,393**	$ 56,569

(b) Net long term liabilities - future redemption

Of the net long term liabilities reported in (a) of this note, $15,180,000 in principal payments are payable from 1988 to 1992, $13,186,000 from 1993 to 1997, and $1,689,000 thereafter.

The difference between the total of principal redemption indicated above ($30,055,000) and the total of net long term liabilities reported in (a) of this note ($47,393,000) is related to the following two factors:

(i) Long term liabilites payable in U.S. funds have been translated into Canadian funds at the exchange rate prevailing at the times the debt was incurred, whereas the projections of principal redemption above are based on $1 U.S. = $1 Canadian.

(ii) The projections of principal redemption indicated above are based on the premise that actuarial sinking fund deposits (in respect of sinking fund debentures) will earn interest, capitalized yearly thereon, at a rate not exceeding 8% and which will be sufficient to repay such debentures in full at maturity.

(c) Translation of net long term liabilities payable in foreign currencies

Included in the total of $47,393,000 is $31,509,000 of net long term liabilities payable in U.S. funds translated into Canadian funds at the rates of exchange prevailing at the times the debt was incurred. If translated at the exchange rate prevailing at December 31, 1987, the Canadian dollar equivalent of this amount of debt would be increased by $7,379,000.

9. RESERVES AND RESERVE FUND

The total balance of reserves and reserve funds of $19,365,000 (1986 -$16,357,000) is made up of the following:

	dollars in thousands	
	1987	1986
Reserves		
Exchange stabilization	**$ 628**	$ 628
Capital financing stabilization	**8,642**	5,642
Water rates stabilization	**10,000**	10,000
	19,270	16,270
Reserve Fund		
Easement	**95**	87
Balance at end of year	**$19,365**	$16,357

a) Capital financing stabilization reserve

A Capital Financing Stabilization Reserve has been established to stabilize current fund contributions for capital expenditure. The present policy of Council for financing capital expenditures net of external financing and surplus sinking fund monies is to provide up to 50 per cent of the required financing by an annual provision in the operating budget, the balance being provided from debenture proceeds. If such annual provision produces funds greater or lesser than the foregoing guideline, such difference is transferred to or from the Reserve.

b) Reserve for stabilization of water rates

Metropolitan Council, on September 20, 1985, approved the creation of a Reserve for Stabilization of Water Rates, commencing in 1985, for the purpose of absorbing any future potential loss which could be experienced under extremes of adverse weather or operating conditions.

10. COMPARATIVE FIGURES

Certain of the 1986 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.